LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 7112 | **NOTE PREPARED:** Jan 15, 2007
BILL NUMBER: HB 1530 | **BILL AMENDED:**

SUBJECT: Property tax exemptions.

FIRST AUTHOR: Rep. Denbo | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides that a fraternal organization is entitled to a property tax exemption applied in the form of a credit against the property taxes on otherwise taxable property in the amount of 1/3 of the organization's average contributions to charity or to a college scholarship fund in the preceding two years. It allows political subdivisions to adjust assessed values used to set property tax rates to avoid shortfalls that would otherwise result from the credits.

Effective Date: January 1, 2008.

Explanation of State Expenditures: The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Under this provision, subject to appropriation, annual state expenditures for Property Tax Replacement Credit (PTRC) and Homestead Credits would vary in FY 2009 and beyond. The amount of the increase or decrease would depend on the potential property tax shift that would result from granting property tax credits to fraternal organizations that apply for them. For example, if part of the tax shift is applied to homesteads then it is likely that these credits would increase; if part of the tax shift is applied to business personal property, then PTRC payments would decrease. PTRC and Homestead Credits are paid from the Property Tax Replacement Fund.

Explanation of State Revenues: The state levies a tax rate for State Fair and State Forestry. If, as proposed by this bill, the assessed value base is adjusted, then revenue allocated to these funds would probably decrease.

Explanation of Local Expenditures: Forty-four counties currently provide additional homestead credits that are paid with proceeds from the local option income taxes (LOIT). These credits would vary depending on the property tax shift that would result from granting property tax credits to fraternal and other organizations for their charitable contributions. If a part of the tax shift is applied to homesteads, for example, then these credits would probably increase thereby reducing proceeds to be distributed to civil taxing units.

Explanation of Local Revenues: Under current law property owned by certain fraternal organizations may be exempt from property taxes to the extent that the property is used to support charitable purposes. In addition to this exemption, this proposal would enable a fraternal or similar type organization to receive a property tax credit for donations to charitable organizations currently exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code, or to the scholarship fund of a state college or university. The fraternal organization must have been active for at least five years before it can apply for the tax credit. The tax credit, itself, will be the lesser of:

(1) one-third of the average charitable contributions over the previous two years;

(2) the property taxes due on all tangible property owned by the fraternal organization.

Estimates from the Urban Institute indicate that in 2004 there were approximately 1,742 Fraternal Beneficiary Societies in Indiana. The current total of charitable contributions that these organizations make to charitable organizations and state colleges is unavailable at this time.

The bill requires county auditors to adjust the assessed value base used in computing tax rates to eliminate or minimize levy reductions that would otherwise result from this credit. This will cause a tax shift from those organizations receiving the credit to all other classes of property in the form of an increased tax rate. The amount of the shift and the increase in the tax rate is indeterminable at this time.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: County auditors; County treasurers; Property Tax Assessment Board of Appeals.

Information Sources: Urban Institute.

Fiscal Analyst: David Lusan, 317-232-9592.